TIPPECANOE COUNTY TREASURER NEWSLETTER

TIPPECANOE COUNTY
OFFICE OF THE TREASURER

March 7, 2008

Tax Increment Financing Districts

Indiana statutes allow local taxing authorities, such as cities towns and the county, to establish Tax Increment Financing districts. Also know as TIF districts. These TIF districts have an impact on potential economic development within the county but they also come with a cost to the taxpayers as well. Is it worth it? I'll try to explain how it works and the impact and then you can decide for yourself.

TIF is a very complicated process, I'll attempt to explain it in simple terms. A TIF district is created when a city, town or county passes an Ordinance establishing a specific geographic area into a TIF district. The year the TIF is created is the base year for the TIF. When property taxes are collected each year, the TIF district gets to keep all the taxes paid on the growth in net assessed valuation compared to the base year's net assessment. Here's an example:

2004 Base Assessment	=	400,000			
2005 Net Assessment	=	425,000	Captured Assessment	=	25,000
2006 Net Assessment	=	490,000	Captured Assessment	=	90,000

The property tax revenues generated from the 25,000 assessment growth in 2005 and the 90,000 assessment growth in 2006 must be used to benefit the TIF district. The expenditures, usually new or improved infrastructure, do not necessarily have to be used within the TIF District but must benefit the district. For example, if the county created a TIF district in West Point, TIF tax revenues could be used for infrastructure on the roads leading to West Point even though the roads may not be within the boundaries of the district.

What is the downside if only the growth is captured? TIF captured assessment is not included in the State calculation of tax rates so by having a TIF, local property tax rates are somewhat inflated. Here's an example of how tax rates are calculated:

County wide Net Assessed Valuation	=	10,000,000
Allowable County General Fund Property Tax Levy	=	$50,000
County General Tax Rate (per $100 of AV)	=	$0.5000

The 400,000 base assessment is included in the 10 million figure but the captured 90,000 in 2006 would not. If the TIF didn't exist, as you can see below, the tax rate would decrease even though the amount of tax money generated would remain at $50,000.

County wide Net Assessed Valuation	=	10,090,000
Allowable County General Fund Property Tax Levy	=	$50,000
County General Tax Rate (per $100 of AV)	=	$0.4955

Obviously increased tax rates mean increased property tax billings. Without a TIF district being created in the late 1980's, the SIA plant would not be in Tippecanoe County today. But with the local taxing units worried that proposed circuit breakers limits on property taxes, it is more important now than ever before to be able to justify these districts and keep the property tax rates as low as possible.

In Tippecanoe County, eleven TIF districts exists with many of those eleven having areas added after the district is initially created therefore different base years are used within the district. A summary for the 2006 assessments for taxes due in 2007 of the TIF districts we have are as follows:

TIF Name	Authorizing Body	Captured Assessment
Levy	West Lafayette City	$ 84,269,210
KCB	West Lafayette City	$ 97,342,280
Creasy Brady	Lafayette City	$ 56,359,120
Creasy Treece	Lafayette City	$179,200,300
Central	Lafayette City	$ 46,701,735
Sagamore Parkway	West Lafayette City	$ 6,631,400
Twyckenham	Lafayette City	$ 76,789,820
Shadeland	Town of Shadeland	$ 11,228,400
Southeast Industrial	Tippecanoe County	$ 29,153,500
North 9th Street	Lafayette City	$ 12,594,250
McCarty	Lafayette City	$ 22,240,760
Total All TIF		$622,510,775

Many tax rates are paid by every Tippecanoe County taxpayer at the same rate, County General, Cumulative Bridge, Welfare rates, Reassessment to name a few. When net assessments are held down by allowing potential assessment to be captured for a Lafayette TIF, the impact is felt not only in Lafayette but also in West Lafayette, Clarks Hill and Odell. The total new assessment for Tippecanoe County was 8,064,150,050. Actual billed net taxes which were captured for the TIF districts amount to $12.89 million in 2007.

If all TIF districts magically disappeared, the countywide property tax rates would fall by 7.7%. Other rates would fall by different percentages and some would see no change at all. For example, if Lafayette were to eliminate a TIF district, no property tax impact would occur on the West Lafayette City General Fund rate.

The $622 million 2006 captured TIF assessment is greater than the *combined* net assessments for all of Jackson Township, Lauramie Township (including the Town of Clarks Hill), Perry Township Randolph Township and Wayne Township ($616,742,535). That is a lot of assessment not used to keep property tax rates as low as possible.

My understanding from years gone by was that property taxes were intended to fund the general operation of local government (schools, libraries, law enforcement and the court system along with other general functions of local government) and gas tax would fund road maintenance and infrastructure. Along the way, that has changed. Now property taxes, like TIF revenues, are funding infrastructure as well as the other functions of local government.

I'm certainly not saying TIF is not needed as it is a vital economic development tool, but when such close examination of property taxes is occurring, this is a significant piece of the puzzle and it too needs to be looked at carefully. If a true need exist which benefits the present and future of the taxpayers, TIF can be a very valuable tool. But if the TIF is not necessary for economic development of an area, the TIF designation for an area should be eliminated. It all comes down to cost versus benefit. Are we making all the right decisions?